Independent Auditor's Report
To the members of Spire Healthcare Group plc

Our opinion on the Group financial statements and Parent Company financial statements
In our opinion:

- Spire Healthcare Group plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

	Group	Parent Company
Balance sheet as at 31 December 2017	✓	✓
Income statement for the year then ended	✓	
Statement of comprehensive income for the year then ended	✓	
Statement of changes in equity for the year then ended	✓	✓
Statement of cash flows for the year then ended	✓	✓
Related notes to the financial statements	✓	✓

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 52 to 55 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 99 in the annual report that they have carried out a robust assessment of the principal risks facing the Group and the Parent Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 99 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 51 in the annual report as to how they have assessed the prospects of the Group and the Parent Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Manipulation of revenue by changes to the pricing master file. • Misstatement due to management posting fraudulent manual journal entries to revenue. • Inappropriate capitalisation of costs to property, plant and equipment. • Property carrying values (hospital assets).
Audit scope	• We performed an audit of the complete financial information of four Group companies and audit procedures on specific balances for a further 14 Group companies. • The Group companies where we performed full or specific audit procedures accounted for 100% of revenue and 100% of Total assets.
Materiality	• Overall Group materiality of £3.5 million which represents 5% of profit before tax adjusted for certain exceptional items.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Manipulation of revenue by changes to the pricing master file

2017: NHS revenue

£287.8m

2016: £293.4m

2017: PMI revenue

£426.0m

2016: £429.3m

Refer to the Audit and Risk Committee Report (pages 70 to 73); Accounting policies (pages 115); and note 6 of the consolidated financial statements (page 123).

Inappropriate revenue recognition by way of management manipulation of the pricing master file, resulting in inaccurate patient invoicing in respect of PMI and NHS revenue.

The high volume of patient transactions, for which pricing is individually agreed by procedure with PMI providers and the NHS, leads to a higher likelihood of material misstatement through intentional changes to individual pricing on the pricing master file.

We considered that the pressure to achieve forecast results or targets increases the risk of financial reporting manipulation by management.

Our response to the risk

To gain assurance over revenue recognised during the period, we tested the two-way correlation between revenue and trade receivables and three-way correlation between revenue, trade receivables and cash for the year. We also tested other revenue and receivables transactions that didn't conform to our expectation of typical revenue postings.

In order to specifically address this fraud risk, we performed the following procedures:

- we understood and evaluated the controls that have been designed and implemented to prevent or detect misstatements due to fraud associated with changes to the pricing master file. We adopted a fully substantive approach to addressing this fraud risk, and as such did not test or rely on the controls identified;
- for PMI revenue, we have tested a representative sample and agreed prices from SAP billings (revenue) to insurer contracts, price lists, or other supporting correspondence as applicable. In instances where no contract was available, we have traced settlement of the invoice directly to cash;
- we used a data analytics tool to address the fraud risk for NHS revenue. We used publicly available NHS national tariff base prices and Market Force factors to check the pricing accuracy of the NHS revenue for the year. For the population outside of the National Tariff, we have agreed a sample of the billings to underlying signed agreements with NHS or other supporting correspondence as applicable, including cash; and
- we investigated whether there had been pricing disputes with insurers or the NHS during the year through discussion with senior finance and commercial management, legal counsel, review of Board and Executive Committee minutes and verifying this to correspondence, where available. Additionally we searched journal descriptions for key words that might indicate the existence of pricing disputes; and
- we reviewed the ageing of accounts receivable to identify instances of aged debt which might indicate a pricing dispute with the customer.

Key observations communicated to the Audit and Risk Committee

We did not identify material errors on pricing, nor evidence of management manipulation of revenue through this means.

Furthermore, we did not identify any indicators of pricing disputes with insurers or the NHS.

Based on our audit procedures performed, we concluded that revenue for the year is appropriately recognised and free from material misstatement.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Misstatement due to management posting fraudulent manual journal entries to revenue **2017: PMI** £426.0m 2016: £429.3m **2017: NHS** £287.8m 2016: £293.4m **2017: Self-pay** £186.9m 2016: £170.4m *Refer to the Audit and Risk Committee Report (pages 70 to 73); Accounting policies (page 115); and note 6 of the consolidated financial statements (page 123).* We consider that the pressure to achieve forecast results and analysts' expectations increases the risk of financial reporting manipulation by management. Given management's bonus structure and the pressure to achieve the agreed performance target, we consider there to be a risk of financial reporting manipulation by management. Based on the key performance indicators that are analysed by both external and internal parties, we consider revenue to be susceptible to management override of control as this forms the foundation for the key performance indicators. We understand that the high volume of system generated and low value revenue transactions, results in limited opportunity for management to fraudulently misstate revenue at a transactional level, (other than through manipulation of changes to the pricing master file as considered on page 102). For management to be able to fraudulently misstate, we consider there to be a greater incentive to override controls by posting manual journal entries to revenue.	• We performed a walkthrough of the financial statement close process and obtained an understanding of the journal entry process, including the journal entry process for the consolidation, and adjusting journals which are posted directly to the financial statements. We have used our understanding of this process to develop our journal testing approach. • Utilising our analytics-based revenue programme, we have understood revenue trends through the use of analytics as follows: – analysis of double-entry postings to the related accounts and how these accounts are aligned with our understanding of the revenue process, activity and source; and – identifying revenue trends which do not correlate with our expectation and investigating and corroborating these uncorrelated trends. • We performed mandatory journal testing by focusing on specific criteria designed to identify journals through which we believe management can post fraudulent manual entries to revenue.	We have not identified any misstatements due to management posting fraudulent manual journal entries to revenue. We have not found any instances of management override.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Inappropriate capitalisation of costs to property, plant and equipment **2017: Costs capitalised** £119.9m 2016: £160.4m *Refer to the Audit and Risk Committee Report (pages 70 to 73); Accounting policies (page 116); and note 13 of the consolidated financial statements (page 128).* Given management's bonus structure and analysts' expectations of the Group's performance, for example earnings per share, we consider the risk of inappropriate capitalisation to be a fraud risk. In the prior year, the Group had three large development projects (Spire Manchester, Nottingham and St Anthony's hospitals) which were substantially completed in this year. The capital expenditure for FY17 is across several existing hospitals and over all property, plant and equipment categories. Given the scale of the capital expenditure in the current year relating to both development projects and general capital spend, we consider there is increased opportunity for management to inappropriately capitalise costs to manipulate the Group's profits. The high volume of costs being capitalised over all property, plant and equipment categories means that it is harder for management to detect material inappropriate items.	• We understood and evaluated the controls that have been designed and implemented to prevent or detect misstatements due to fraud or error associated with the inappropriate capitalisation of costs on hospitals. We identified an operating control deficiency and as a result adopted a fully substantive approach to address this fraud risk. • We selected a sample of costs capitalised during the year to address the nature of the items capitalised, and to assess whether the items have been appropriately capitalised in accordance with IAS 16. Our sample included both high and low value items. We obtained the invoice to verify the existence and valuation of each item, and also obtained evidence that the expenditure was authorised based on the delegation of authority matrix. We verified that the expenditure was capital in nature by reading the descriptions and details on the invoices and supporting documentation. We obtained evidence certified by third-party surveyors to support the value of work completed by the main contractors for large project samples selected. • Where internal costs were capitalised, we verified that the costs were directly attributable to the relevant project by obtaining calculation of staff cost multiplied by percentage time allocated to specific projects, correspondence from project managers confirming the percentage time for staff to be allocated, and payslips to confirm staff costs. • We performed mandatory testing of journal entries. Our journal testing approach considered appropriate criteria to identify a journal testing sample which addressed the risk of inappropriate capitalisation of costs to property, plant, and equipment.	Our audit procedures found no material instances of expenditure which had been inappropriately capitalised to property, plant and equipment. Based on our audit procedures performed, we concluded that costs have been appropriately capitalised to property, plant, and equipment.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Property carrying values (hospital assets) **2017: Freehold property carrying value** £582.9m 2016: £575.2m *Refer to the Audit and Risk Committee Report (pages 70 to 73); Accounting policies (page 116); and notes 5 and 13 of the consolidated financial statements (pages 122 and 128)* Freehold property is held at depreciated cost and its carrying value is required to be assessed for indicators of impairment by management on an annual basis. For those properties with an indicator, an impairment test is performed by calculating a value in use, by means of a discounted cash flow model. As this process involves some degree of estimation we consider that there is a risk that properties are held in the financial statements at an inappropriate carrying value.	• We obtained a comparison of each hospital's EBITDA for 2017 to its budget. We selected certain freehold and long leasehold hospital properties to focus on, specifically those which show notable underperformance compared to budget and prior year in percentage terms. • We obtained management's value-in-use calculation for the selected hospitals. We have understood the process and controls behind the preparation of management's underlying three-year forecast, given management's reliance on the plan for the value-in-use model. We have reviewed performance against budget to assess management's ability to accurately forecast. • We tested the reasonableness of management's cash flow forecasts by comparing to prior year actuals and the prior year forecasts. We discussed the forecasts with management to understand local factors regarding strategy and market forces which had been taken into account in the forecasts. We corroborated the key assumptions to evidence. We focused our procedures on two hospitals which had minimal headroom. • We engaged our valuation specialist to assist us in verifying the appropriateness of certain key inputs to the discounted cash flow model, such as the discount rate, certain growth rates and the terminal growth rate.	Having sensitised management's value-in-use calculations for the hospitals we focused on, we conclude that the risk of material misstatement is low. The carrying value was supported, suggesting no need to recognise impairment on these properties. We therefore agree with management's conclusion that the carrying value of the Group's properties is appropriate.

In the prior year, our auditor's report included a key audit matter in relation to manipulation of accrued patient revenue. In the current year we have concluded that, due to the size of the accrual at any point in the reporting period, any manipulation is unlikely to be material and have removed this as an area of significant risk.

An overview of the scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identify the subsidiaries which represent the principal business units within the Group. The Group continues to operate solely in the UK.

We performed an audit of the complete financial information of four (2016: four) entities ('full scope components') which were selected based on their size or risk characteristics. For a further 14 (2016: 19) entities ('specific scope components'), we performed audit procedures on specific accounts within that entity that we considered had the potential for the greatest impact on the significant accounts in the Group financial statements either because of the size of these accounts or their risk profile.

The entities for which we performed audit procedures accounted for 100% (2016: 100%) of the Group's revenue and 100% (2016: 100%) of the Group's total assets. For the current year, the full scope components contributed 92% (2016: 88%) of the Group's revenue and 68% (2016: 69%) of the Group's total assets. The specific scope components contributed 8% (2016: 12%) of the Group's revenue and 32% (2015: 31%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but has contributed to the coverage of significant accounts tested for the Group. It is not possible to present the split between full and specific scope components on a profit before tax basis in a meaningful way. This is due to intra-Group profits earned in certain specific scope components which result in consolidated profit before tax amount to more than 100%.

For the remaining 17 non-dormant entities we performed other procedures, including analytical review and testing of the clerical accuracy of the consolidation to respond to any potential risks of material misstatement of the Group financial statements.

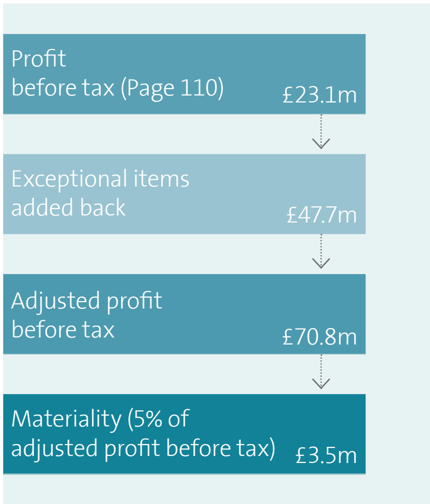
The audit of the entities within the Group is undertaken by one audit team which is led by the senior statutory auditor.

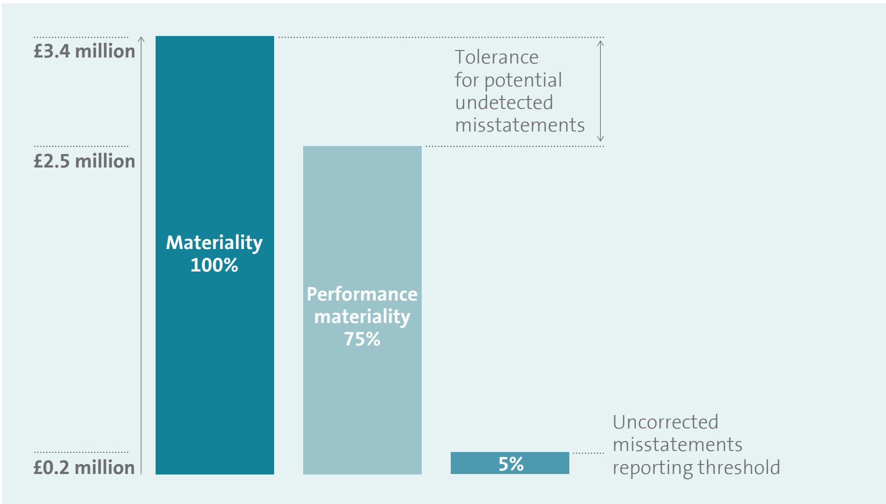
Changes from the prior year

There have not been any significant changes to the scope of our audit from the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.





Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.5 million (2016: £4.1 million), which is 5% of adjusted profit before tax (2016: 5% of adjusted profit before tax). We have adjusted profit before tax for certain exceptional items amount to £47.7 million, in order to calculate materiality on a basis which reflects the underlying performance of the Group. We believe this provides us with the most applicable measurement basis for the users of the financial statements and is in line with the adjusted performance measures the Group uses. We have not adjusted for £1.5 million of exceptional items which are not significant.

We determined materiality for the Parent Company to be the same as materiality for the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £2.5 million (2015: £3.1 million). We have set performance materiality at this percentage due to our assessment of the overall control environment and the history of no or very few audit adjustments.

Audit work on subsidiaries for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative size and risk of the entity in relation to the Group as a whole and our assessment of the risk of misstatement arising in that entity. In the current year, the range of performance materiality allocated to subsidiary entities was £0.5 million to £2.5 million (2016: £0.5 million to £2.8 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.2 million (2016: £0.2 million), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 99, including, the Strategic Report set out on pages 2 to 55 and Governance report set out on pages 56 to 99, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **fair, balanced and understandable set out on page 99 – Statement of Director's responsibility** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting set out on pages 70 to 73** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee/the explanation as to why the annual report does not include a section describing the work of the Audit and Risk Committee is materially inconsistent with our knowledge obtained in the audit; and
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 99** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors’ Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors’ responsibilities statement set out on page 99, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- we obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those related to the reporting framework (IFRS adopted by the EU, the Companies Act of 2006 and the Corporate Governance Code), the relevant tax compliance regulations in the UK, and the Data Protection Act of 1998. In addition, we conclude that there are certain laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the London Stock Exchange, the Bribery Act of 2010 and certain laws specific to entities operating in the private healthcare provider industry;
- we understood how Spire Healthcare Group plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Group Company Secretary. We corroborated our enquiries through the review of Board minutes, communications with the Audit and Risk Committee and correspondence received from regulatory bodies; and
- we assessed the susceptibility of the Group’s financial statements to material misstatement, including how fraud might occur by meeting with management and those charged with governance to understand where they considered there was a susceptibility to fraud. We also considered performance targets, forecasted results and bonus structures and their influence on efforts made by management to manage earnings or influence the perception of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified risk.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included the review of Board minutes to identify any non-compliance with laws and regulations, a review of the reporting to the Audit and Risk Committee on compliance with regulations, enquiries with those responsible for legal and compliance, enquiries with the Group Company Secretary and with management.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditors by the Board in November 2008 to audit the financial statements of the Company for the period ending 31 December 2008 and subsequent financial periods. The period of total uninterrupted engagement, including the period prior to the Companies admission on the London Stock Exchange in 2014, is 10 years, covering the years ended 31 December 2008 to 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
1 March 2018

Notes applicable where this report is published electronically:

1 The maintenance and integrity of the Spire Healthcare Group plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2017

(£ million)	Notes	2017 Total before exceptional and other items	2017 Exceptional and other items (note 9)	2017 Total	2016 Total before exceptional and other items	2016 Exceptional and other items (note 9)	2016 Total
Revenue	6	**931.7**	**–**	**931.7**	926.4	–	926.4
Cost of sales		**(492.2)**	**–**	**(492.2)**	(485.9)	–	(485.9)
Gross profit		**439.5**	**–**	**439.5**	440.5	–	440.5
Other operating costs		**(347.4)**	**(49.2)**	**(396.6)**	(332.3)	(15.2)	(347.5)
Operating profit/(loss)	5,9	**92.1**	**(49.2)**	**42.9**	108.2	(15.2)	93.0
Finance income	7	**0.1**	**–**	**0.1**	0.2	–	0.2
Finance cost	7	**(20.3)**	**–**	**(20.3)**	(20.0)	–	(20.0)
Profit/(loss) before taxation		**71.9**	**(49.2)**	**22.7**	88.4	(15.2)	73.2
Taxation	9,11	**(14.0)**	**8.1**	**(5.9)**	(11.8)	(7.8)	(19.6)
Profit/(loss) for the year		**57.9**	**(41.1)**	**16.8**	76.6	(23.0)	53.6
Profit/(loss) for the year attributable to owners of the Parent		**57.9**	**(41.1)**	**16.8**	76.6	(23.0)	53.6
Earnings per share (in pence per share)							
– basic	12	**14.4**	**(10.2)**	**4.2**	19.2	(5.8)	13.4
– diluted	12	**14.4**	**(10.2)**	**4.2**	19.1	(5.8)	13.3

The notes on pages 115 to 142 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

(£ million)	2017	2016
Profit for the year	**16.8**	53.6
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year attributable to owners of the Parent	**16.8**	53.6

The notes on pages 115 to 142 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Retained earnings	Total equity
As at 1 January 2016		**4.0**	**826.9**	**376.1**	**(5.6)**	**(203.8)**	**997.6**
Profit for the year		–	–	–	–	53.6	53.6
Other comprehensive income for the year		–	–	–	–	–	–
Dividend paid	24	–	–	–	–	(14.8)	(14.8)
Share based payments	21	–	–	–	–	0.4	0.4
Corporation tax on share based payments		–	–	–	–	0.6	0.6
Deferred tax on share based payments		–	–	–	–	(0.3)	(0.3)
Purchase of shares held in the EBT	19	–	–	–	(1.8)	–	(1.8)
Utilisation of EBT shares for Directors Share Bonus Award	19	–	–	–	5.2	(5.2)	–
As at 1 January 2017		**4.0**	**826.9**	**376.1**	**(2.2)**	**(169.5)**	**1,035.3**
Profit for the year		**–**	**–**	**–**	**–**	**16.8**	**16.8**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**
Dividend paid	24	**–**	**–**	**–**	**–**	**(15.2)**	**(15.2)**
Share based payments	21	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Utilisation of EBT shares for 2014 LTIP Award	19	**–**	**–**	**–**	**1.3**	**(1.3)**	**–**
Balance at 31 December 2017		**4.0**	**826.9**	**376.1**	**(0.9)**	**(168.2)**	**1,037.9**

The notes on pages 115 to 142 form an integral part of these financial statements.

Consolidated balance sheet
As at 31 December 2017

(£ million)	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	**1,036.9**	991.5
Intangible assets	14	**517.8**	517.8
		1,554.7	1,509.3
Current assets			
Inventories	16	**30.1**	28.1
Trade and other receivables	17	**104.5**	119.1
Cash and cash equivalents	18	**39.2**	67.9
		173.8	215.1
Non-current assets held for sale	4	**5.6**	–
		179.4	215.1
Total assets		**1,734.1**	1,724.4
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**4.0**	4.0
Share premium		**826.9**	826.9
Capital reserves	19	**376.1**	376.1
EBT share reserves	19	**(0.9)**	(2.2)
Retained earnings		**(168.2)**	(169.5)
Equity attributable to owners of the Parent		**1,037.9**	1,035.3
Total equity		**1,037.9**	1,035.3
Non-current liabilities			
Borrowings	20	**498.0**	495.7
Deferred tax liabilities	11	**72.6**	71.2
		570.6	566.9
Current liabilities			
Provisions	22	**17.9**	16.7
Borrowings	20	**4.0**	4.5
Trade and other payables	23	**101.5**	100.3
Income tax payable		**2.2**	0.7
		125.6	122.2
Total liabilities		**696.2**	689.1
Total equity and liabilities		**1,734.1**	1,724.4

These Consolidated financial statements and the accompanying notes were approved for issue by the Board on 1 March 2018 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Simon Gordon
Chief Financial Officer

The notes on pages 115 to 142 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

(£ million)	Notes	**2017**	2016
Cash flows from operating activities			
Profit before taxation		**22.7**	73.2
Adjustments for:			
Depreciation	13	**57.4**	51.9
Impairment of property, plant and equipment	13	**10.3**	0.5
Reversal of impairment on property, plant and equipment	13	**–**	(1.9)
Loss on disposal of property plant and equipment	5	**0.4**	10.8
Write-off intangible assets	14	**–**	1.3
Finance income	7	**(0.1)**	(0.2)
Finance costs	7	**20.3**	20.0
Share based payments	21	**1.0**	0.4
		112.0	156.0
Movements in working capital:			
Decrease in trade and other receivables		**14.6**	15.6
(Increase)/decrease in inventories		**(2.0)**	0.9
Increase in trade and other payables		**1.3**	6.8
Increase in provisions		**1.2**	1.1
Cash generated from operations		**127.1**	180.4
Income tax received		**–**	1.4
Income tax paid		**(3.1)**	(4.4)
Net cash from operating activities		**124.0**	177.4
Cash flows from investing activities			
Interest received		**0.1**	0.2
Purchase of property plant and equipment		**(119.2)**	(149.5)
Proceeds on disposal of property plant and equipment		**0.8**	(0.6)
Net cash used in investing activities		**(118.3)**	(149.9)
Cash flows from financing activities			
Interest paid		**(18.8)**	(21.5)
Repayment of bank borrowing		**(0.4)**	(0.4)
Purchase of shares held in the EBT		**–**	(1.8)
Dividends paid to equity holders of the Parent	24	**(15.2)**	(14.8)
Net cash used in financing activities		**(34.4)**	(38.5)
Net decrease in cash and cash equivalents		**(28.7)**	(11.0)
Cash and cash equivalents at 1 January		**67.9**	78.9
Cash and cash equivalents at 31 December	18	**39.2**	67.9
Exceptional and other items			
Exceptional and other items paid included in the cash flow		**(31.3)**	(5.9)
Total exceptional and other items	9	**(49.2)**	(15.2)

The notes on pages 115 to 142 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2017

1. General information

Spire Healthcare Group plc (the 'Company') and its subsidiaries (collectively, the 'Group') owns and operates private hospitals and clinics in the UK and provides a range of private healthcare services.

The financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors of the Company on 1 March 2018.

The Company is a public limited company, which is listed on the London Stock Exchange, incorporated, registered and domiciled in England and Wales (registered number: 9084066). The address of its registered office is 3 Dorset Rise, London EC4Y 8EN.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and on an historical cost basis. The Group financial statements are presented in UK sterling and all values are rounded to the nearest million pounds (£ million), except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Further details on the Group's critical judgements and estimates are included in note 3.

Going concern

The Group is financed by a bank loan facility that matures in July 2019. The Directors have considered the Group's forecasts, projections, ability to refinance, and the risks associated with their delivery, and are satisfied that the Group will be able to operate within the covenants imposed by the bank loan facility for at least 12 months from the date of approval of these financial statements. In relation to available cash resources, the Directors have had regard to both cash at bank and a £100.0 million committed undrawn revolving credit facility. Accordingly, they have adopted the going concern basis in preparing these financial statements.

Revenue recognition

The Group derives its revenue primarily from providing private healthcare services to both the public sector and private patients in the UK. Revenue from charges to patients is recognised when the treatment is provided.

Interest income

Interest is recognised on an effective interest rate basis.

Cost of sales

Cost of sales principally comprises salaries of clinical staff, consultant and clinical fees, medical services and inventories, including drugs, consumables and prostheses.

Other operating costs

Other operating costs mainly comprise non-clinical staff costs, rent associated with properties leased under operating leases, depreciation, maintenance and running costs of properties and equipment. It also includes administrative expenses, including the provision of central support services, IT and other administrative costs.

Operating profit

Operating profit is the profit arising from the normal, recurring operations of the business and after charging exceptional and other items, as defined below.

Operating profit is adjusted to exclude exceptional and other items to calculate the Key Performance Indicator 'Operating profit before exceptional and other items'.

Exceptional and other items

Exceptional items are those items which, by virtue of their nature, size or incidence, either individually or in aggregate, need to be disclosed separately to allow a full understanding of the underlying performance of the Group. Items which may be considered exceptional in nature include significant write-downs of goodwill and other assets, restructuring costs, impairments, hospital closures and set-up costs, business acquisition costs, medical malpractice provision, aborted project costs and executive medical leave and death in service.

Other items are those items which the Directors believe are relevant to the understanding of the results for the year and which are excluded from the adjusted measures, where the Directors considered necessary to do so due to their nature or amount, to provide further understanding of the Group's financial performance and comparability between reporting periods. Other items include compliance set-up costs and deferred tax adjustments in relation to revised property carrying values.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows. There are no bank overdrafts in either year presented.

2. Accounting policies continued

Taxation including deferred taxation

Total income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity and other comprehensive income, in which case it is recognised directly in equity and other comprehensive income.

Current tax is the expected tax payable on the taxable result for the year, using tax rates enacted, or substantively enacted, at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- goodwill not deductible for tax purposes;
- the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- investments in subsidiary companies where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted, or substantively enacted, at the balance sheet date. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be used.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Major projects are treated as assets in the course of construction until completed when they are transferred to the appropriate asset class.

No depreciation is charged on freehold land or assets in the course of construction. Other assets are depreciated so as to write-off the carrying amounts of the assets, less their estimated residual values, over their expected useful lives, as follows:

Freehold buildings and improvements	– 5 to 50 years
Leasehold buildings and improvements	– lower of unexpired lease term or expected life, with a maximum of 35 years
Plant and machinery	– 5 to 10 years
Fixtures, fittings and equipment	– 3 to 10 years

The expected useful lives and residual values of property, plant and equipment are reviewed annually and revised as appropriate. The review of the asset lives and residual values of properties takes into consideration the plans of the business and levels of expenditure incurred on an ongoing basis to maintain the properties in a fit and proper state for their ongoing use as hospitals.

Consolidation

The results of all subsidiary undertakings are included in the Consolidated financial statements. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Employee Benefit Trust (EBT) is treated as an extension of the Group and the Company.

2. Accounting policies continued

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other operating costs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities of acquired businesses at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses.

Goodwill is allocated to one cash-generating unit and is not amortised but is tested annually for impairment, or more frequently if there is an indication that the value of the goodwill may be impaired.

Financial Instruments

i) Financial assets other than derivatives

Initial recognition and measurement
All financial assets are recognised initially at fair value plus directly attributable transaction costs. The Company's financial assets include cash and short-term deposits and trade and other receivables.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Subsequent measurement
Trade receivables are generally accounted for at amortised cost. The Company reviews indicators of impairment on an ongoing basis and where such indicators exist, the Company makes an estimate of the asset's recoverable amount.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value plus directly attributable transaction costs. Subsequently, such assets are measured at amortised cost, using the effective interest rate ('EIR') method, less any allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable in the Consolidated income statement.

Losses arising from impairment are recognised in the Consolidated income statement in Other operating costs .

ii) Financial liabilities other than derivatives

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Company determines the classification of financial liabilities at initial recognition.

Initial recognition and measurement
All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in interest receivable and interest payable.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost means purchase price, less trade discounts, calculated on an average basis. Net realisable value means estimated selling price, less trade discounts, and less all costs to be incurred in marketing, selling and distribution.

The Group holds consignment stock on sale or return. The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

2. Accounting policies continued

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost on an effective interest basis.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk-adjusted, future cash flows at a pre-tax risk-free rate. Provisions are measured gross of any expected insurance recovery. Any such insurance recoveries are recognised in other receivables when the receipt of them is judged sufficiently probable.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangements at the inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leasing arrangements which transfer to the Group substantially all the risks and rewards of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in tangible assets and depreciated over their estimated economic lives or over the term of the lease, whichever is the shorter.

The capital element of the leasing commitments is included in liabilities as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to the income statement in proportion to the capital element outstanding.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Sale and leaseback of properties

In circumstances where the Group sells a property to a third party and then enters into an agreement with the buyer to lease the asset back under an operating lease (a 'sale and leaseback transaction'), the asset is shown as disposed from property, plant and equipment. If the sale is at fair value, the profit or loss on disposal is recognised immediately in the income statement. If the sale price is below fair value, the profit or loss on disposal is also recognised immediately, except if a loss is compensated for by future rentals being below a market price, in which case the loss is amortised over the life of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period of the lease.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium. Where the employee benefit trust purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders in both the Company and the Consolidated balance sheet until the shares are cancelled or reissued.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

Pensions

The Group operates the Spire Healthcare Pension Plan, a defined contribution scheme. The assets of the scheme are held separately from those of the Group in independently administered funds.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

Other employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonuses if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. Accounting policies continued

Share based payments

The Group operates a number of equity-settled share based payment schemes under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Where the share awards have non-market related performance criteria, the Group has used the Black Scholes valuation model to establish the relevant fair values. Where the share awards have total shareholder return ('TSR') market-related performance criteria, the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values (see note 21). The resulting fair values are recognised in the income statement over the vesting period of the options.

At the end of each year, the Group revises its estimates of the number of options that are expected to vest based on the non-market conditions and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The social security contributions payable in connection with the grant of the share options is considered to be an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Changes in accounting policy

New standards, interpretations and amendments applied

The following amendments to existing standards were effective for the Group from 1 January 2017, but either they were not applicable to or did not have a material impact on the Group:

- Amendments to IAS 7 *Disclosure Initiatives*
- Annual Improvements to IFRSs 2014–2016 Cycle: Clarification of the scope of the disclosure requirements in IFRS 12
- IAS 12 (Income taxes) *Recognition of Deferred Tax Assets for Unrealised losses*

New standards, interpretations and amendments not applied

As at date of approval of the Group financial statements, the following new and amended standards, interpretations and amendments in issue are applicable to the Group but not yet effective and thus, have not been applied by the Group:

	Effective date*
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Clarification to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IFRS 2: *Classification and Measurement of Share based Payment Transactions*	1 January 2018
Annual Improvements 2014–2016 Cycle	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018†
Annual Improvements 2015–2017 Cycle	1 January 2019†
IFRS 16 *Leases*	1 January 2019

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

† At the date of authorisation of these financial statements, these standards and interpretation have not yet been endorsed or adopted by the EU.

The Directors do not expect the adoption of these standards, interpretations and amendments to have a material impact on the Consolidated or Parent Company financial statements in the period of initial application, except for IFRS 16 *Leases*. The Group's assessment of the impact of applying IFRS 9, IFRS 15 and IFRS 16 are discussed on page 120.

2. Accounting policies continued

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 '*Revenue from Contracts with Customers*' will be effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The standard (endorsed on 22 September 2016) establishes a five-step principle-based approach for revenue recognition and is based on the concept of recognising an amount that reflects the consideration for performance obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards.

Impact of adoption

The Group is in the business of providing healthcare services. During 2017, the Group completed an impact assessment of IFRS 15 and concluded that the adoption of IFRS 15 will have an insignificant impact on its consolidated results. As such, the Group will adopt IFRS 15 with effect from 1 January 2018 using the Modified Retrospective approach.

Analysis

Approximately 70% of the Group's revenue is derived from in-patient and daycase admissions. Revenue is recognised day by day, as services are provided to patients. These services are typically provided over a short time frame, that is, one to three days. Out-patient cases and other revenue represent approximately 30% of the Group's revenue. Out-patient cases generally do not involve surgical procedures and revenue is recognised on an individual component basis when performance obligations are satisfied. Similarly, other revenue, which includes consultant revenue and other third-party revenue streams, is recognised when performance obligations are satisfied and the control of goods or services is transferred. The current revenue recognition policy is in line with the requirements of IFRS 15 five-step model.

Disaggregated revenue disclosure

Spire Healthcare reports disaggregated revenue by material revenue stream (i.e. type of payor: PMI, NHS and Self-pay) and other revenue which includes consultant revenue, third-party revenue streams (e.g. pathology services) and of commissioning for quality and innovation payments ('CQUIN'). Material revenue streams are consistent in nature, being the consideration received in return for the provision of healthcare services to patients. The timing and uncertainty of cash flows is similar for PMI and NHS business while Self-pay revenue is received in advance or collected by credit card shortly after treatment. In addition, Spire Healthcare reports revenue split between in-patient/daycase, out-patient and other. As noted above, in all cases, revenue is recognised as performance obligations are completed in the form of services being provided to patients. Uninvoiced revenue is accrued at period ends. Invoices for the combination of services provided to patients are generally produced within three days of discharge. Spire Healthcare believes that these disclosures satisfy the requirements of IFRS 15 to enable the reader to understand the nature, amount, timing and uncertainty of revenue and cash flows.

IFRS 16 *Leases*

IFRS 16 '*Leases*' will be effective for annual periods beginning on or after 1 January 2019 with early adoption permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group has completed an initial assessment of the potential significant impact on its Consolidated financial statements but has not yet completed a detailed assessment of all leases. At 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to £1,587.6 million, on an undiscounted basis. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the contracts currently accounted for as finance leases.

IFRS 9 *Financial Instruments*

IFRS 9 '*Financial Instruments*' will be effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, liabilities and some contract to buy or sell non-financial items. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 new impairment models requires the recognition of impairment provisions based on the expected credit loss ('ECL') model which replaces the 'incurred loss' model in IAS 39. Under the new loss allowance method, it can be measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these ECLs that result from all possible default events over the expected life of the financial instrument.

Concerning impairment, the Directors expect to apply the simplified approach to recognise lifetime ECLs for the Group's trade receivables. This will result in an insignificant increase to the impairment provision on adoption of IFRS9 and going forwards greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provision. In applying IFRS 9 the Group must consider the probability of default occurring over the contractual life of its trade receivables.

3. Critical accounting judgements and estimates

In the application of the Group's accounting policies, the Directors are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following accounting policies have been identified as involving particularly complex judgements or subjective estimates:

Judgements

Exceptional and other items

Judgements are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional and other items. Deciding which items meet the respective definitions requires the Group to exercise its judgement. Details of these items categorised as exceptional and other items are outlined in note 9.

Estimates

Deferred tax liabilities and assets

The Group owns a portfolio of freehold and leasehold property interests. In previous years, the Group had recognised a deferred tax liability in its financial statements in respect of capital gains tax and other taxes based on the assumption that a proportion of the freehold properties would have been disposed of in future years, whilst the remaining properties were realised through use. This calculation previously required judgement about the timing and number of the related property disposals, which was potentially impacted by changes to plans made by the business over time and, in particular, changes in business plans in respect of the holding or disposing of properties.

Deferred tax assets are recognised for unutilised trading losses and capital losses. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation rates and taxation rates.

During 2016, the Group considered it to be appropriate to reassess the basis for calculating deferred tax on the property portfolio and has since based the assessment on solely held-in-use basis. In 2016 this gave rise to a material tax charge of £8.4 million (refer to note 11).

Goodwill

Goodwill is considered for impairment at least annually or more frequently if there is an indication that goodwill may be impaired. This is achieved by comparing the value-in-use of the goodwill with its carrying value in the accounts. The value-in-use calculations require the Group to estimate future cash flows expected to arise in the future, taking into account market conditions. The present value of these cash flows is determined using an appropriate discount rate.

The assumptions considered to be most critical in reviewing goodwill for impairment are contained in note 14.

Leases

In the determination of the classification of a number of leases over hospital properties as operating leases, assumptions have been made about the discount rate applied to the annual rent payable over the remainder of the lease term compared against their respective fair values and of the useful economic life of the hospitals. Further information about commitments under these leases is given in note 25.

Share based payments

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The assumptions considered to be most critical in estimating share based payments are contained in note 21.

Provision for medical malpractice claims

In the measurement of such provisions where the recognition criteria are met, the typical complexity of claims – for example, in respect of their outcome and the extent of damages (if any) assessed on the Group – requires management to use estimation. Such estimates are typically based on professional advice on expected outcomes and historical information on similar claims.

In some cases, judgement is also required, for example, as to whether the criteria for recognising provisions are met and whether a reliable estimate of the outcomes can be made.

Further details of claims and the amounts provided are given in note 22.

Property impairment

Property is considered for impairment at least annually or more frequently if there is an indication that carrying amount may be impaired. This is achieved by comparing the value-in-use of the property with its carrying value in the accounts. The value-in-use calculations require the Group to estimate cash flows expected to arise in the future, taking into account market conditions. The present value of these cash flows is determined using an appropriate discount rate.

4. Non-current assets held for sale

As at December 2017, the Group's management have committed to sell two properties which previously formed part of the Group operations, Spire St Saviour's Hospital which closed in 2015 and Whalley Range, Manchester which is due to close in April 2018. The properties are expected to be sold within twelve months, have been classified as held for sale and are presented separately in the Consolidated balance sheet.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

(£ million)	**2017**
Spire St Saviour's Hospital (note 13)	**2.0**
Whalley Range property (note 13)	**3.6**
	5.6

5. Operating profit

Arrived at after charging/(crediting):

(£ million)	**2017**	2016
Rent of land and buildings under operating leases	**63.9**	62.7
Depreciation of property, plant and equipment	**57.4**	51.9
Ian Paterson claims and related costs (see note 9)	**28.7**	–
Reversal of impairment on property, plant and equipment (see note 13)	**–**	(1.9)
Impairment of property, plant and equipment (see note 13)	**10.3**	0.5
Write-off intangible assets	**–**	1.3
Loss on disposal of property, plant and equipment	**0.4**	10.8
Staff costs (see note 8)	**282.1**	268.0

Impairment losses and reversals of impairment are included in other operating costs.

6. Segmental reporting

In determining the Group's operating segment, management has primarily considered the financial information in internal reports that are reviewed and used by the executive management team and Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the Group has a single operating segment, being the provision of healthcare services.

All revenue is attributable to and all non-current assets are located in the United Kingdom.

Revenue by wider customer (payor) group is shown below:

(£ million)	2017	2016
Insured	426.0	429.3
NHS	287.8	293.4
Self-pay	186.9	170.4
Other	31.0	33.3
Total	931.7	926.4

7. Finance income and costs

(£ million)	2017	2016
Finance income		
Interest income on bank deposits	0.1	0.2
Finance costs		
Interest on bank facilities	11.8	12.7
Interest on obligations under finance leases and hire purchase contracts	9.2	9.1
Financed costs capitalised in the year	(0.7)	(1.8)
Total finance costs	20.3	20.0

Finance costs capitalised during the year were calculated based on a weighted cost of borrowing of 3.4% (2016: 3.5%).

8. Staff costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category was as follows:

(No.)	2017	2016
Clinical	6,301	6,128
Non-clinical	5,043	4,848
	11,344	10,976

The average number of full-time equivalent persons employed by the Group during the year, analysed by category, was as follows:

(No.)	2017	2016
Clinical	4,391	4,245
Non-clinical	3,990	3,810
	8,381	8,055

The aggregate payroll costs of these persons were as follows:

(£ million)	2017	2016
Wages and salaries	242.1	230.4
Social security costs	21.6	20.4
Pension costs, defined contribution scheme	18.4	17.2
	282.1	268.0

Included in wages and salaries and social security costs for year ended 31 December 2017 are exceptional items of £3.7 million (2016: £3.4 million) and £0.3 million (2016: £0.3 million), respectively. Refer to note 9 for further details.

Pension costs are in respect of the defined contribution scheme; unpaid contributions at 31 December 2017 were £1.8 million (2016: £1.6 million).

9. Exceptional and other items

(£ million)	2017	2016
Ian Paterson claims and related costs	**28.7**	–
Write-off and aborted project costs	**14.4**	–
Hospital set-up and closure costs	**3.4**	1.1
Executive medical leave and death in service	**0.9**	–
Business reorganisation and corporate restructuring	**0.6**	5.3
Write-off intangible assets	**–**	1.3
Hospital reversal of impairment on property, plant and equipment	**–**	(1.9)
Loss on disposal of property, plant and equipment (also referred to as the Asset Swap Transaction)	**–**	8.9
Other[1]	**0.7**	0.5
Total exceptional costs (see also other items)	**48.7**	15.2
Income tax credit on exceptional items	**(8.0)**	(0.6)
Total post-tax exceptional items	**40.7**	14.6

1 Other exceptional items in 2017 predominantly relate to the Mediclinic takeover bid, relocation of HR and payroll functions and the release of an onerous lease provision. In 2016 the costs primarily relate to National Insurance on Directors' Share Bonus Award granted at the time of the IPO.

Following the completion of the criminal proceedings against Ian Paterson (a consultant who previously had practicing privileges at Spire Healthcare) earlier in 2017, Spire Healthcare settled all current and known claims against Spire relating to his practice at Spire Healthcare. Accordingly, Spire Healthcare has provided £28.7 million in relation to this settlement, plus related costs, of which £26.1 million has been paid. Spire is currently pursuing legal action against its insurers to seek recoveries against this settlement and related costs, which may give rise to future exceptional income being recognised in the income statement. No account has been taken of these further recoveries in the results for the year ended 31 December 2017.

In the final quarter of 2017, management undertook a strategic review of its current portfolio of sites and the future development options for the Group. As part of the process, the decision was taken to cease the provision of radiotherapy services at the Spire Specialist Cancer Care Centre in Baddow (Essex) as a consequence of poor commercial performance. The charge for the year includes £10.3 million for the write-off of fixed assets, net of recoverable value, and a provision for site closure costs. Additionally, certain well progressed capital projects, notably the development of a hospital in Central London, have been aborted and the costs associated with these projects have been charged as exceptional items in the year due to the fundamental change in development strategy.

Hospital set-up and closure costs include the pre-opening expenses for the two new hospitals opened during 2017 (Spire Manchester and Spire Nottingham hospitals), plus the decommissioning costs of the former Manchester hospital site.

An Executive Director had a period of illness during 2017. Costs associated with his remuneration during his medical leave were duplicative to the business. After sadly passing away in July 2017, Spire Healthcare made a death in service payment which has also been included in exceptional items.

In the year ended 31 December 2016, business reorganisation mainly comprised staff restructuring costs and the closure costs relating to an onerous contract. In the year, the Group's goodwill in relation to the Lifescan business was written-off following a strategic review and the closure of this operation. Hospital set-up costs refer to pre-opening costs for the new Spire Manchester and Spire Nottingham hospitals. The reversal of the impairment is the result of the reassessment of the lives of medical and other equipment following the relocation of the assets from the previous Spire Manchester Hospital to the new hospital facility and other Group hospitals following its closure. Hospital closure costs relate to the decommissioning of the assets related to the previous Spire Manchester Hospital. Corporate restructuring related to an internal Group reorganisation and transaction costs relating to the Asset Swap Transaction as described below. Except for the corporate restructuring costs, which were capital in nature, and write-off of intangible assets, all other exceptional costs are expected to be tax deductible.

On 31 August 2016, as a result of the development of a new hospital facility in Manchester and the closure of the previous Spire Manchester Hospital (previously held under an operating lease), the freehold interest in Spire Wirral Hospital with a net book value of £11.7 million was disposed of, and leased back in a sale and leaseback transaction. The consideration for the sale was realised in the form of a non-cash asset, being the freehold of the previous Spire Manchester Hospital, which was simultaneously acquired by the Group (the 'Asset Swap Transaction'). The overall loss on these transactions was £7.7 million before sale costs of £1.2 million.

For 2017, £4.0 million (2016: £3.7 million) in respect of wages, salaries and social security costs (see note 8) is included in write-off and aborted project costs, executive medical leave and death in service, business reorganisations, hospital set-up costs, hospital closure, other and corporate restructuring costs.

9. Exceptional and other items continued

(£ million)	2017	2016
Other items		
Compliance set-up costs	0.5	–
Total other items	0.5	–
Income tax credit on other items	(0.1)	–
Deferred tax reassessment of temporary difference on property	–	8.4
Total post-tax other items	0.4	8.4

Compliance set-up costs include amounts incurred in 2017 to meet the requirements of General Data Protection Regulations ('GDPR') effective May 2018. Management expect further material costs to arise in 2018 in advance of the effective date to meet these new regulations and for Spire Healthcare to fulfil its extended obligations under these new regulations.

10. Auditor's remuneration

During the year, the Group (including its subsidiary undertakings) obtained the following services from the Group's external auditor as detailed below:

(£ million)	2017	2016
Audit of these financial statements	0.4	0.4
Audit of the financial statements of subsidiaries of the Company pursuant to legislation	0.1	0.1
	0.5	0.5

11. Taxation

(£ million)	2017	2016
Current tax		
UK corporation tax expense	4.5	2.1
UK corporation tax adjustment to prior years	–	0.4
Total current tax	4.5	2.5
Deferred tax		
Origination and reversal of temporary differences	1.7	16.3
Effect of change in tax rate	(0.5)	(5.2)
Reassessment property temporary differences (notes 3 and 9)	–	8.4
Adjustments in respect of prior years	0.2	(2.4)
Total deferred tax	1.4	17.1
Total tax expense	5.9	19.6

Corporation tax is calculated at 19.25% (2016: 20.0%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was 26.0% (2016: 26.8%).

11. Taxation continued

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

(£ million)	2017	2016
Profit before taxation	22.7	73.2
Tax at the standard rate	4.4	14.6
Effects of:		
Expenses not deductible for tax purposes	0.5	2.7
Adjustments to prior year	0.2	(2.0)
Reassessment of property temporary differences (notes 3 and 9)	–	8.4
Difference in tax rates	(0.5)	(5.2)
Increase from impairment of fixed assets	1.3	–
Disposal of subsidiary company	–	0.8
Write-off of intangible assets	–	0.3
Total tax expense	5.9	19.6

Expenses not deductible for tax purposes relate mostly to depreciation on non-qualifying fixed assets, disallowable entertaining and professional fees.

The UK Government has announced a further decrease in the future UK corporation tax rate from 18% to 17% from April 2020. This change has resulted in a deferred tax credit arising from the reduction in the balance sheet carrying value of deferred tax liabilities to reflect the anticipated rate of tax at which those liabilities are expected to reverse.

During 2016, the Group considered it to be appropriate to reassess the basis for calculating deferred tax on the property portfolio and has now based the assessment on solely held-in-use basis (see note 3). This gave rise to a material tax charge in 2016 which is excluded from tax on underlying profit.

Deferred tax

	Property, plant and equipment	Share based payments	Losses	Provisions and other temporary differences	Total
At 1 January 2016	77.8	(0.9)	(23.0)	(0.3)	53.6
Recognised in profit or loss	0.3	0.3	14.3	(1.0)	13.9
Change in tax rates	(5.1)	–	–	(0.1)	(5.2)
Reassessment of property temporary differences (note 3)	8.4	–	–	–	8.4
Recognised in equity	–	0.3	–	–	0.3
Disposal of subsidiary company	–	–	0.2	–	0.2
At 1 January 2017	81.4	(0.3)	(8.5)	(1.4)	71.2
Recognised in profit or loss	(5.5)	0.1	7.1	0.2	1.9
Change in tax rates	(0.5)	–	–	–	(0.5)
At 31 December 2017	75.4	(0.2)	(1.4)	(1.2)	72.6
Disclosed within liabilities	75.4	(0.2)	(1.4)	(1.2)	72.6

Deferred tax on property, plant and equipment has arisen on differences between the carrying value of the relevant assets and the tax base. The losses relate entirely to non-trade losses.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted, or substantively enacted, at the balance sheet date. The Finance Act 2016, which included a further reduction in the UK corporate tax rate from 18.0% to 17.0% on 1 April 2020, has been enacted and so deferred tax assets and liabilities have been calculated at this rate unless the temporary difference is expected to reverse sooner than 1 April 2020 in which case the applicable rate of 18.00% to 19.25% has been used.

11. Taxation continued

The Group has unrecognised deferred tax assets as at 31 December 2017 as follows:

(£ million)	2017	2016
Trading losses	0.9	0.9
Capital losses	0.1	0.1
Tax basis for future capital disposals	17.9	17.9
	18.9	18.9

These amounts are the expected tax value of the gross temporary difference at the enacted long-term tax rate of 17% (2016: 17%). A deferred tax asset has not been recognised in respect of these amounts due to uncertainties as to the timing of future profits that the trading losses could be offset against and whether capital gains will arise against which the capital losses and tax basis for capital disposals could be utilised.

12. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Profit for the year attributable to owners of the Parent (£ million)	16.8	53.6
Weighted average number of ordinary shares	401,081,391	401,081,391
Adjustment for weighted average number of shares held in EBT	(467,034)	(1,085,956)
Weighted average number of ordinary shares in issue (No.)	400,614,357	399,995,435
Basic earnings per share (in pence per share)	4.2	13.4

For dilutive earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares arising from share options. Refer to the Remuneration Committee Report for the terms and conditions of instruments generating potential ordinary shares that affect the measurement of diluted EPS. There are no instruments that are antidilutive for the periods presented which have been excluded from the calculation of diluted EPS.

	2017	2016
Profit for the year attributable to owners of the Parent (£ million)	16.8	53.6
Weighted average number of ordinary shares in issue	400,614,357	399,995,435
Adjustment for weighted average number of contingently issuable shares	861,612	1,576,430
Diluted weighted average number of ordinary shares in issue (No.)	401,475,969	401,571,865
Diluted earnings per share (in pence per share)	4.2	13.3

13. Property, plant and equipment

(£ million)	Freehold property	Long leasehold property	Equipment	Assets in the course of construction	Total
Cost:					
At 1 January 2016	**673.3**	**158.5**	**298.9**	**38.6**	**1,169.3**
Additions	9.7	14.2	32.6	103.9	160.4
Disposals	(15.3)	(2.3)	(25.7)	–	(43.3)
Transfers	18.7	6.4	2.6	(27.7)	–
At 1 January 2017	**686.4**	**176.8**	**308.4**	**114.8**	**1,286.4**
Additions	**14.0**	**7.8**	**45.9**	**52.2**	**119.9**
Disposals	**–**	**(2.5)**	**(15.6)**	**–**	**(18.1)**
Transfers	**–**	**133.9**	**28.4**	**(162.3)**	**–**
Assets held for sale	**(33.6)**	**–**	**–**	**–**	**(33.6)**
At 31 December 2017	**666.8**	**316.0**	**367.1**	**4.7**	**1,354.6**
Accumulated depreciation and impairment:					
At 1 January 2016	**94.7**	**40.7**	**138.4**	**–**	**273.8**
Charge for year	11.7	4.7	35.5	–	51.9
Disposals	(3.0)	(2.0)	(24.4)	–	(29.4)
Impairment	–	0.4	0.1	–	0.5
Reversal of impairment	–	–	(1.9)	–	(1.9)
At 1 January 2017	**103.4**	**43.8**	**147.7**	**–**	**294.9**
Charge for the year	**9.3**	**9.1**	**39.0**	**–**	**57.4**
Disposals	**–**	**(2.3)**	**(14.6)**	**–**	**(16.9)**
Impairment (note 9)	**6.9**	**–**	**3.4**	**–**	**10.3**
Assets held for sale	**(28.0)**	**–**	**–**	**–**	**(28.0)**
At 31 December 2017	**91.6**	**50.6**	**175.5**	**–**	**317.7**
Net book value:					
At 31 December 2017	**575.2**	**265.4**	**191.6**	**4.7**	**1,036.9**
At 31 December 2016	583.0	133.0	160.7	114.8	991.5

Assets held for sale are in relation to Spire St Saviour's Hospital and Whalley Range, Manchester. Further details are shown in note 4. The impairment in 2017 is the result of the closure of the Spire Specialist Cancer Care Centre in Baddow (Essex) further details as shown in note 9.

As at 31 December 2017, included in the net book value of property, plant and equipment above is £20.3 million (2016: £21.7 million) relating to assets held under finance leases on which there was a depreciation charge of £1.2 million in the year (2016: £1.2 million).

The amount of borrowing costs capitalised during the year ended 31 December 2017 was £0.7 million (2016: £1.8 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 3.4% (2016: 3.5%) which is calculated on a weighted cost of borrowing.

14. Intangible assets

(£ million)	Goodwill
Cost or valuation:	
At 1 January 2016	520.1
Written-off	(1.3)
At 31 December 2016	518.8
At 31 December 2017	**518.8**
Impairment:	
At 1 January 2016, 31 December 2016 and 31 December 2017	**1.0**
Carrying amount:	
At 31 December 2017	517.8
At 31 December 2016	**517.8**

The goodwill arising on acquisitions is reviewed annually for impairment on 31 December or when there is an event that may indicate impairment. The recoverable amount of the Group's cash-generating unit exceeds its carrying value and no impairment charge has been recognised (2016: £nil) and no event has given rise to amounts written-off (2016: £1.3m).

The Directors do not believe that any impairment is required in the current financial year.

Impairment testing

The Directors treat the business as a single cash-generating unit for the purposes of testing goodwill for impairment. The recoverable amount of goodwill is calculated by reference to its estimated value-in-use.

In order to estimate the value-in-use, management has used trading projections covering the five-year period to December 2022.

Management identified a number of key assumptions relevant to the value-in-use calculations, being revenue growth, which is impacted by an interaction of a number of elements of the operating model, including pricing trends, volume growth and the mix and complexity of discharges, assumptions regarding cost inflation and discount rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends. Revenue growth is projected to be in line with past experience averaging 4.3% for the five-year period (2016: 4.1%). Cost assumptions are consistent with the Group's historical track record, after taking account of headline inflation at 3.0% (2016: 1.0%).

A long-term growth rate of 2.25% (2016: 2.25%) has been applied to cash flows beyond 2022, which is based on historic growth rates achieved by the sector, which have typically exceeded the retail price index ('RPI'). Pre-tax discount rates were based on the capital asset pricing model, utilising a sector-specific Beta in arriving at the equity premium and cost of debt based on current bank lending rates. A specific pre-tax discount rate was calculated to reflect the profile of cash flows inherent to the cash-generating unit and this was 9.0% (2016: 9.0%).

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. For example, an increase of 3.0% in the pre-tax discount rate to 12.0%, with all other assumptions held constant, did not identify any impairments. Similarly, zero growth in the period beyond 2022, with all other assumptions held constant or combined with a 1.0% increase in the pre-tax discount rate, did not identify any impairment. The pre-tax discount rate would need to increase to 12.4%, with all other assumptions held constant, in order to reduce recoverable value equal to the carrying amount.

15. Subsidiary undertakings

As at 31 December 2017, these Consolidated financial statements of the Group comprise the Company and the following companies, most of which are incorporated in, and whose operations are conducted in, the United Kingdom. All subsidiaries are 100% owned unless otherwise indicated.

Incorporated in England and Wales and registered at 3 Dorset Rise, London EC4Y 8EN, unless otherwise stated	Principal activity	Class of share
Classic Hospitals Group Limited	Holding company	Ordinary
Classic Hospitals Limited	Non-trading company	Ordinary
Classic Hospitals Property Limited	Property company	Ordinary
Didsbury MSK Limited	Dormant company	Ordinary
Fox Healthcare Acquisitions Limited	Leasing company	Ordinary
Fox Healthcare Holdco 2 Limited	Holding company	Ordinary
Lifescan Limited	Non-trading company	Ordinary
Links Bidco S.à r.l. Propco 8#	Property company	Ordinary
Montefiore House Limited+	Health provision	Ordinary
SHC Holdings Limited	Holding company	Ordinary
Spire Cambridge (Disposal) Limited	Non-trading company	Ordinary
Spire Fertility (Disposal) Limited	Non-trading company	Ordinary
Spire Healthcare (Holdings) Limited	Holding company	Ordinary
Spire Healthcare Finance Limited*	Holding company	Ordinary
Spire Healthcare Group UK Limited	Holding company	Ordinary
Spire Healthcare Holdings 1	Holding company	Ordinary
Spire Healthcare Holdings 2 Limited	Holding company	Ordinary
Spire Healthcare Holdings 3 Limited	Holding company	Ordinary
Spire Healthcare Limited	Health provision	Ordinary
Spire Healthcare Properties Limited	Hospital leasing	Ordinary
Spire Healthcare Property Developments Limited	Development company	Ordinary
Spire Property 1 Limited	Property company	Ordinary
Spire Property 4 Limited	Property company	Ordinary
Spire Property 5 Limited	Property company	Ordinary
Spire Property 6 Limited	Property company	Ordinary
Spire Property 13 Limited	Property company	Ordinary
Spire Property 16 Limited	Property company	Ordinary
Spire Property 17 Limited	Property company	Ordinary
Spire Property 18 Limited	Property company	Ordinary
Spire Property 19 Limited	Property company	Ordinary
Spire Property 23 Limited	Property company	Ordinary
Spire Thames Valley Hospital (BVI Property Holdings) Limited^	Holding company	Ordinary
Spire Thames Valley Hospital Limited	Non-trading company	Ordinary
Spire Thames Valley Hospital Propco Limited	Property company	Ordinary
Spire UK Holdco 2A Limited	Holding company	Ordinary
Spire UK Holdco 4 Limited	Holding company	Ordinary

* Direct shareholding of the Company.
\+ Ownership interest is 50.1%.
^ Incorporated in the British Virgin Islands (BVI) and registered at Harneys Corporate and Trust Services Limited, Craigmuir Chambers, Road Town, Tortola, VG1110, BVI.
\# Incorporated in Luxembourg and registered at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

On 5 October 2017, Didsbury MSK Limited was incorporated by the Registrar of Companies.

On 21 November 2017, Medicainsure Limited, Spire Links 2 Limited and Spire Property 2 Limited, were struck off by the Registrar of Companies.

16. Inventories

(£ million)	2017	2016
Prostheses, drugs, medical and other consumables	**30.1**	28.1

Cost of sales for the year ended 31 December 2017 includes inventories recognised as an expense amounting to £179.0 million (2016: £177.3 million).

17. Trade and other receivables

(£ million)	2017	2016
Amounts falling due within one year:		
Trade receivables – net	**50.3**	58.0
Accrued income	**14.4**	22.8
Prepayments	**29.1**	27.2
Other receivables	**10.7**	11.1
Total current trade and other receivables	**104.5**	119.1

Trade receivables comprise amounts due from private medical insurers, the NHS, patients, consultants and other third parties who use the Group's facilities. Invoices to customers fall due within 60 days of the date of issue. Some of the agreements with NHS customers operate on the basis of monthly payments on account with quarterly reconciliations, which can lead to invoices being paid after their due date.

The ageing of trade receivables is shown below and shows amounts that are past due at the reporting date. A provision for doubtful receivables has been recognised at the reporting date through consideration of the ageing profile of the Group's receivables and the perceived credit quality of its customers. The carrying amount of trade receivables is considered to be an approximation to its fair value.

The ageing of trade receivables that are past due but not impaired:

(£ million)	2017	2016
Not past due and not impaired	**38.5**	38.3
Past due 0–30 days, and not impaired	**4.6**	8.0
Past due 31–90 days, and not impaired	**3.7**	6.7
Past due and more than 91 days, and not impaired	**3.5**	5.0
Total	**50.3**	58.0

Trade receivables comprise the following wider customer/payor groups:

(£ million)	2017	2016
Private medical insurers	**29.5**	34.0
NHS	**11.6**	10.8
Patient debt	**4.3**	4.9
Other	**4.9**	8.3
Total	**50.3**	58.0

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

(£ million)	2017	2016
At 1 January	**5.0**	5.7
Provided in the year	**5.0**	4.6
Utilised during the year	**(6.1)**	(5.3)
At 31 December	**3.9**	5.0

18. Cash and cash equivalents

(£ million)	2017	2016
Cash at bank	**17.0**	53.9
Short-term deposits	**22.2**	14.0
	39.2	67.9

19. Share capital and reserves

	£0.01 ordinary shares	
	Shares	£'000
Issued and fully paid		
At 31 December 2017	**401,081,391**	**4,010**
At 31 December 2016	401,081,391	4,010

Capital reserves

This reserve represents the loans of £376.1 million due to the former ultimate parent undertaking and management that were forgiven by those counterparties as part of the reorganisation of the Group prior to the IPO in 2014.

EBT share reserves

Equiniti Trust (Jersey) Limited is acting in its capacity as trustee of the Company's Employee Benefit Trust ('EBT'). The purpose of the EBT is to further the interests of the Company by benefiting employees and former employees of the Group and certain of their dependants. The EBT is treated as an extension of the Group and the Company.

During 2017, the EBT purchased no shares (2016: 561,860 shares acquired at an average price per share of £3.18 per share).

Where the EBT purchases the Company's equity share capital the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. As at 31 December 2017, 281,631 shares (2016: 670,559) were held by the EBT in relation to the Directors' share bonus award and long-term incentive plan.

At 1 January 2017, the EBT held 670,559 shares. In March 2017, 228,100 number of shares were exercised in relation to the 2014 Long term incentive plan ('LTIP') and in April 2017, 26,489 number of shares were exercised in relation to the 2014 LTIP. In December 2017, 134,339 shares were exercised in relation to the 2016 and 2017 LTIP which were awarded as part of the death in service package for Andrew White. There were no new purchases of shares and at 31 December 2017 the EBT held 281,631 shares.

At 1 January 2016, the EBT held 1,692,242. In April 2016, 801,825 number of shares were exercised in Tranche 1 of the Directors' Share Bonus Award and in August 2016, 781,718 shares were exercised for Tranche 2 (refer to Note 21). A purchase of 561,860 shares was made in July 2016 for an average price of £3.18 per share; and at 31 December 2016, the EBT held 670,559 shares.

The EBT share reserve represents the consideration paid when the EBT purchases the Company's equity share capital, until the shares are reissued.

20. Loans and borrowings

(£ million)	2017	2016
Secured borrowings		
Bank loans	**425.1**	424.1
Obligations under finance leases	**76.9**	76.1
	502.0	500.2

The bank loans and finance leases are secured on fixed and floating charges over both the present and future assets of material subsidiaries of the Group.

(£ million)	2017	2016
Total borrowings (measured at amortised cost)		
Amount due for settlement within 12 months	**4.0**	4.5
Amount due for settlement after 12 months	**498.0**	495.7
	502.0	500.2

Obligations under finance leases

The Group has finance leases in respect of three hospital properties and medical equipment. Future minimum lease payments under finance leases are as follows:

	2017		2016	
(£ million)	**Minimum payments**	**Present value of payments**	Minimum payments	Present value of payments
Within one year	**8.7**	**6.2**	8.7	7.0
After one year but not more than five years	**36.6**	**19.2**	35.8	21.2
More than five years	**220.3**	**51.5**	229.8	47.9
Total minimum lease payments	**265.6**	**76.9**	274.3	76.1
Less amounts representing finance charges	**(188.7)**	**–**	(198.2)	–
Present value of minimum lease payments	**76.9**	**76.9**	76.1	76.1

Property leases, with a present value liability of £76.6 million (2016: £75.4 million), expire in 2040 and carry an implicit interest rate of 12.9% (2016: 12.9%). Rent is reviewed annually with reference to RPI, subject to a floor of 3.0% and a cap at 5.0%.

Terms and debt repayment schedule

The maturity date is the date on which the relevant bank loans are due to be fully repaid, as at the balance sheet date.

The carrying amounts drawn (after issue costs and including interest accrued) under facilities in place at the balance sheet date were as follows:

(£ million)	Maturity	Margin over LIBOR	2017	2016
Senior finance facility	July 2019	2.00%	**425.1**	424.1
Revolving credit facility (undrawn committed facility)	July 2019		**100.0**	100.0

On 23 July 2014, the Group was refinanced, and it entered into a bank loan facility with a syndicate of banks, comprising a five-year, £425.0 million term loan and a five-year £100.0 million revolving facility. The loan is non-amortising and carries interest at a margin of 2.00% over LIBOR (2016: 2.00% over LIBOR).

20. Loans and borrowings continued

Changes in liabilities arising from financing activities

(£ million)	1 January	Cash flows	Non cash changes	31 December
2017				
Bank loans	**424.1**	**(10.0)**	**11.0**	**425.1**
Lease liabilities	**76.1**	**(9.2)**	**10.0**	**76.9**
Total	**500.2**	**(19.2)**	**21.0**	**502.0**

Reconciliation of net change in cash and cash equivalents to net debt

(£ million)	2017	2016
Bank loans	**424.1**	423.1
Obligations under finance leases	**76.1**	75.3
	500.2	498.4
Cash at bank	**(53.9)**	(42.8)
Short-term investments	**(14.0)**	(36.1)
Net debt at 1 January	**432.3**	419.5
Net decrease in cash and cash equivalents	**28.7**	11.0
Loans movement	**1.0**	1.0
Movement in obligations under finance leases	**0.8**	0.8
	30.5	12.8
Net debt at 31 December	**462.8**	432.3

21. Share based payments

The Group operates a number of share based payment schemes for Executive Directors and other employees, all of which are equity settled.

The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £1.0 million in the year ended 31 December 2017 (2016: £0.4 million). Employer's National Insurance is being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total National Insurance charge for the year was £0.1 million (2016: £0.2 million).

The following table analyses the total cost between each of the relevant schemes, together with the number of options outstanding:

	2017		2016	
(£ million)	Charge £m	Number of options (thousands)	Charge £m	Number of options (thousands)
Long Term Incentive Plan	**1.0**	**1,946**	0.4	950
Deferred Bonus Plan	**–**	**29**	–	–
	1.0	**1,975**	0.4	950

21. Share based payments continued

A summary of the main features of the scheme is shown below:

Long Term Incentive Plan

The Long Term Incentive Plan ('LTIP') is open to Executive Directors and designated senior managers, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria.

Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years, unless the Committee determines otherwise. Awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the Plan rules.

Vesting of awards will be dependent on a range of financial, operational or share price measures, as set by the Committee, which are aligned with the long-term strategic objectives of the Group and shareholder value creation. Not less than 30% of an award will be based on share price measures. The remainder will be based on either financial and/or operational measures. At the threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance. For awards granted in 2017, vesting will be based on EPS (35%), relative TSR (35%) and Operational Excellence (30%) targets. The details of measures, targets and weightings may be varied by the Committee prior to grant based on the Group's strategic objectives.

Deferred bonus plan

The Deferred Bonus Plan is a discretionary executive share bonus plan under which the Remuneration Committee determines that a proportion of a participant's annual bonus will be deferred. The market value of the shares granted to any employee will be equal to one-third of the total annual bonus that would otherwise have been payable to the individual. The awards will be granted on the day after the announcement of the Group's annual results. The awards will normally vest over a three-year period.

The aggregate number of share awards outstanding for the Group and their weighted average exercise price is shown below:

	2017			
	LTIP (TSR condition) (thousands)	**LTIP (EPS condition) (thousands)**	**LTIP (OE condition) (thousands)**	**Deferred Bonus Plan (thousands)**
At 1 January	**992**	**992**	**–**	**29**
Granted	**383**	**383**	**328**	**–**
Exercised	**(189)**	**(189)**	**(11)**	**–**
Surrendered	**(323)**	**(323)**	**(96)**	**–**
Cancelled	**–**	**–**	**–**	**–**
At 31 December	**863**	**863**	**221**	**29**
Exercisable at 31 December	**32**	**–**	**–**	**–**
Weighted average contractual life	**1.2 years**	**1.2 years**	**2.3 years**	**0.4 years**

	2016			
	Directors' Share Bonus Award* (thousands)	LTIP (TSR condition) (thousands)	LTIP (EPS condition) (thousands)	Deferred Bonus Plan (thousands)
At 1 January	1,638	1,003	1,003	29
Granted	–	475	475	–
Exercised	(1,584)	–	–	–
Surrendered	–	(486)	(486)	–
Cancelled	(54)	–	–	–
At 31 December	–	992	992	29
Exercisable at 31 December	–	286	286	–
Weighted average contractual life	–	1.9 years	1.9 years	1.4 years

* The Directors' Share Bonus Award was divided into two equal tranches, the first of which vested on 23 July 2015 and the second tranche vested on 23 July 2016. The number of options that vested depended on conditions relating to share price on the relevant dates. The second tranche, which vested on 23 July 2016, resulted in 781,718 options (23 July 2015: 801,824 options) being issued. All qualifying options relating to the Directors' Share Bonus Award were exercised during 2016. For further details, see the Directors' Remuneration Report, on pages 78 to 95 .

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 was 1.3 years (2016: 1.9 years).

21. Share based payments continued

Share options outstanding at the end of the year have the following expiry date:

Grant – vest	Expiry date	Exercise price (£)	Share options thousands 2017	2016
LTIP grants				
30/09/2014 – 31/12/2016	30/09/2024	–	**32**	572
01/04/2015 – March 2018	01/04/2025	–	**547**	547
30/03/2016 – March 2019	30/03/2026	–	**631**	865
30/03/2017 – March 2020	30/03/2027	–	**737**	–
Deferred Bonus Plan				
01/06/2015 – 01/06/2018	01/06/2025	–	**29**	29

The following information is relevant to the determination of the fair value of the awards granted for the years ended 31 December 2017 and 2016, respectively, under the schemes:

2017	LTIP (TSR condition)	LTIP (EPS condition)	LTIP (OE condition)	Deferred Bonus Plan
Option pricing model	**Monte Carlo**	**Fair value at grant date**	**Fair value at grant date**	**n/a**
Fair value at grant date (£)	**1.47**	**3.26**	**3.26**	**n/a**
Weighted average share price at grant date (£)	**3.26**	**3.26**	**3.26**	**n/a**
Exercise price (£)	**Nil**	**Nil**	**Nil**	**n/a**
Weighted average contractual life	**3.0 years**	**3.0 years**	**3.0 years**	**n/a**
Expected dividend yield	**n/a**	**n/a**	**n/a**	**n/a**
Risk-free interest rate	**0.2%**	**n/a**	**n/a**	**n/a**
Volatility	**34%**	**n/a**	**n/a**	**n/a**

2016	LTIP (TSR condition)	LTIP (EPS condition)	Deferred Bonus Plan
Option pricing model	Monte Carlo	Fair value at grant date	n/a
Fair value at grant date (£)	2.32	3.60	n/a
Weighted average share price at grant date (£)	3.60	3.60	n/a
Exercise price (£)	Nil	Nil	n/a
Weighted average contractual life	3.0 years	3.0 years	n/a
Expected dividend yield	n/a	n/a	n/a
Risk-free interest rate	0.6%	n/a	n/a
Volatility	37%	n/a	n/a

The expected volatility is based on the historical volatility of the Company and a comparator group of other international healthcare companies.

22. Provisions

(£ million)	Medical malpractice	Business restructuring and other	Total
At 1 January 2017	**14.3**	**2.4**	**16.7**
Increase in existing provisions	**35.2**	**0.7**	**35.9**
Provisions utilised	**(31.0)**	**(1.6)**	**(32.6)**
Provisions released	**(1.7)**	**(0.4)**	**(2.1)**
At 31 December 2017	**16.8**	**1.1**	**17.9**

Medical malpractice relates to commitments to patients in respect of the removal or replacement of the PIP brand of breast implants, and estimated liabilities arising from claims for damages in respect of services previously supplied to patients. Amounts are shown gross of insured liabilities. Any such insurance recoveries are recognised in other receivables. Following the completion of the criminal proceedings against Ian Paterson, a consultant who previously had practicing privileges at Spire Healthcare, management agreed settlement with all current and known civil claimants (and the other co-defendants) and have made a provision for the expected remaining costs (see note 9). The provision in relation to Ian Paterson costs have been determined before account is taken of any potential further recoveries from insurers.

Business restructuring and other includes staff restructuring costs and closure costs relating to the Specialist Cancer Care Centre in Baddow (Essex).

The provisions are shown gross of any expected reimbursement from insurers of the related risks. The reimbursement is recognised as a separate receivable when receipt of it is judged sufficiently probable. The amount included in other receivables in that respect was £7.5 million (2016: £6.7 million).

Provisions as at 31 December 2017 are materially considered to be current and expected to be utilised at any time within three years.

23. Trade and other payables

(£ million)	2017	2016
Trade payables	**49.0**	49.7
Accrued expenses	**36.5**	38.3
Social security and other taxes	**6.0**	3.5
Other payables	**10.0**	8.8
	101.5	100.3

24. Dividends

(£ million)	2017	2016
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2016 of 2.4 pence per share (2016: 2.4 pence)	**10.0**	9.6
– interim dividend for the year ended 31 December 2017 of 1.3 pence per share (2016: 1.3 pence)	**5.2**	5.2
Total	**15.2**	14.8

A final dividend of 2.5 pence per share amounting to a total final dividend of approximately £10.0 million, is to be proposed at the Company's annual general meeting on 24 May 2018. In accordance with IAS 10 *Events after the Balance Sheet Date*, dividend declared after the balance sheet date is not recognised as a liability in these financial statements.

25. Commitments

Operating leases

The Group had future minimum lease payments under non-cancellable operating leases, based on rents prevailing at the year end, as set out below:

(£ million)	2017 Land and buildings	2017 Other	2016 Land and buildings	2016 Other
Not later than one year	**65.4**	**1.1**	63.1	1.1
Later than one year and not later than five years	**259.1**	**2.2**	249.7	2.2
Later than five years	**1,263.1**	**–**	1,282.9	–
	1,587.6	**3.3**	1,595.7	3.3

The Group has a number of long-term institutional lease arrangements. These include leases over 12 properties with a term up to December 2042, subject to renewal or extension over each of the 12 properties. The leases include key terms such as annual rental covenants and minimum levels of capital expenditure invested by the Group. Rent is indexed annually in line with RPI, upwards only and subject to a cap of 5.0%. The capital expenditure covenants measured on an average basis over each five-year period during the term of the leases, require the Group to incur, in total, £5.0 million of maintenance capital expenditure and £3.0 million of additional capital expenditure each year, such being subject to indexation in line with RPI.

Other operating leases are in respect of vehicles and medical transportation.

Consignment stock

At 31 December 2017, the Group held consignment stock on sale or return of £23.0 million (2016: £22.1 million). The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

Capital commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the balance sheet date. They include the full cost of goods and services to be provided under the contracts through to completion. The Group has rights within its contracts to terminate at short notice and, therefore, cancellation payments are minimal.

Capital commitments at the end of the year were as follows:

(£ million)	2017	2016
Contracted but not provided for	**65.5**	63.8

26. Contingent liabilities

The Group had the following guarantees at 31 December 2017:

- the bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2016: £1.5 million) in relation to contractual pension obligations and statutory insurance cover in respect of the Group's potential liability to claims made by employees under the Employers' Liability (Compulsory Insurance) Act 1969;
- under certain lease agreements entered into on 26 January 2010, the Group has given undertakings relating to obligations in the lease documentation and the assets of the Group are subject to a fixed and floating charge; and
- see note 22 for details of a contingent liability in respect of Medical Malpractice.

27. Financial risk management and impairment of financial assets

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Credit risk and impairment

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk from trade receivables is considered to be low because of the nature of its customers and policies in place to prevent credit risk occurring.

Most revenues arise from insured patients' business and the NHS. Insured revenues give rise to trade receivables which are mainly due from large insurance institutions, which have high credit worthiness. The remainder of revenues arise from individual Self-pay patients and consultants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

This allowance is composed of specific losses that relate to individual exposures and also a collective loss component established in respect of losses that have been incurred but not yet identified, determined based on historical data of payment statistics.

Note 17 shows the ageing and customer profiles of trade receivables outstanding at the year end.

Investments

The Group limits its exposure to credit risk by only investing in short-term money market deposits with large financial institutions, which must be rated at least Investment Grade by key rating agencies.

Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

27. Financial risk management and impairment of financial assets continued

Interest rate risk

The Group is exposed to interest rate risk arising from fluctuations in market rates. This affects future cash flows from money market investments and the cost of floating rate borrowings.

From time-to-time, the Group considers the cost benefit of entering into derivative financial instruments to hedge its exposure to interest rate volatility based on existing variable rates, current and predicted interest yield curves and the cost of associated medium-term derivative financial instruments.

Interest rates on variable rate loans are determined by LIBOR fixings on a quarterly basis. Interest is settled on all loans in line with agreements and is settled at least annually.

	Variable	Total	Undrawn facility
31 December 2017 (£ million)	**425.0**	**425.0**	**100.0**
Effective interest rate (%)	**2.42%**	**2.42%**	
31 December 2016 (£ million)	425.0	425.0	100.0
Effective interest rate (%)	2.40%	2.40%	

Sensitivity analysis

A change of 25 basis points in interest rates at the reporting date would have increased/(decreased) equity and reported results by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss		Equity	
(£ million)	25bp increase	25bp decrease	25bp increase	25bp decrease
At 31 December 2017				
Variable rate instruments	**(0.3)**	**0.3**	**(0.3)**	**0.3**
At 31 December 2016				
Variable rate instruments	(0.3)	0.3	(0.3)	0.3

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity is managed across the Group and consideration is taken of the segregation of accounts for regulatory purposes. Short-term operational working capital requirements are met by cash in hand and overdraft facilities.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least 90 days, including the servicing of financial obligations. In addition to cash on demand, the Group has available the following lines of credit:

- £100.0 million of revolving credit facility, which was fully undrawn as at 31 December 2017 (2016: £100.0 million undrawn).

27. Financial risk management and impairment of financial assets continued

The following are contractual maturities, at as the balance sheet date, of financial liabilities, including interest payments and excluding the impact of netting agreements:

2017 (£ million)	Carrying amount	Contractual cash flows	Maturity analysis Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	**59.0**	**59.0**	**59.0**	**–**	**–**
Bank borrowings	**425.1**	**445.8**	**11.5**	**434.3**	**–**
Finance lease liabilities (present value)	**76.9**	**265.6**	**8.7**	**8.7**	**248.2**
	561.0	**770.4**	**79.2**	**443.0**	**248.2**

2016 (£ million)	Carrying amount	Contractual cash flows	Maturity analysis Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	55.9	55.9	55.9	–	–
Bank borrowings	424.1	456.0	10.9	11.3	433.8
Finance lease liabilities (present value)	76.1	270.4	8.5	8.5	253.4
	556.1	782.3	75.3	19.8	687.2

Bases of valuation

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The carrying value of the other financial instruments, being finance leases and debt, is approximately equal to their fair value based on review of current terms against market and expected short-term settlements, except for floating rate debt, which is after the deduction of £1.8 million (2016: £2.9 million) of issue costs.

As at 31 December 2017, the Group did not hold any financial instruments measured at fair value (2016: nil).

Capital management

The Group's objective is to maintain an appropriate balance of debt and equity financing to enable the Group to continue as a going concern, to continue the future development of the business and to optimise returns to shareholders and benefits to other stakeholders.

The Board closely manages trading capital, defined as net assets plus net debt. The Group's net assets at 31 December 2017 were £1,037.9 million (2016: £1,035.3 million) and net debt, calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents, amounted to £462.8 million (2016: £432.3 million).

The principal focus of capital management revolves around working capital management and compliance with externally imposed financial covenants. Throughout the period and up to the date of approval of these financial statements, the Group complied with all covenants required by our lending group.

Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval by the Board.

At the balance sheet date, the Group's committed undrawn facilities, and cash and cash equivalents were as follows:

(£ million)	2017	2016
Committed undrawn revolving credit facility	**100.0**	100.0
Cash and cash equivalents	**39.2**	67.9

28. Related party transactions

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include the Board and Executive Committee, as identified on pages 56 to 59.

Compensation for key management personnel is set out in the table below:

Key management compensation

(£ million)	2017	2016
Salaries and other short-term employee benefits	3.5	3.2
Post-employment benefits	0.4	0.4
Share based payments	0.9	0.3
	4.8	3.9

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 78 to 95.

There were no transactions with related parties external to the Group in the year to 31 December 2017 (2016: nil).

29. Events after the reporting period

2017 final dividend

For 2017, the Board has recommended a final dividend of 2.5 pence per share, amounting to approximately £10.0 million, to be paid on 26 June 2018 to shareholders on the register at the close of business on 1 June 2018.

Company balance sheet

As at 31 December 2017

(Registered number: 9084066)

(£ million)	Notes	2017	2016
ASSETS			
Non-current assets			
Investments	C9	**832.2**	831.1
		832.2	831.1
Current assets			
Other receivables	C7	**122.0**	80.8
Income tax receivable		**0.2**	1.1
Cash and cash equivalents	C6	**0.1**	12.1
		122.3	94.0
Total assets		**954.5**	925.1
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**4.0**	4.0
Share premium		**826.9**	826.9
EBT share reserves	19	**(0.9)**	(2.2)
Retained earnings		**122.0**	93.9
Total equity		**952.0**	922.6
Current liabilities			
Trade and other payables	C8	**2.5**	2.5
Total liabilities		**2.5**	2.5
Total equity and liabilities		**954.5**	925.1

The profit attributable to the owners of the Company for the year ended 31 December 2017 was £42.2 million (2016: £44.7 million).

The financial statements on pages 143 to 149 were approved by the Board of Directors on 1 March 2018 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Simon Gordon
Chief Financial Officer

Company statements of changes in equity

For the year ended 31 December 2017

(£ million)	Share capital	Share premium	EBT share reserves	Retained earnings	Total
At 1 January 2016	4.0	826.9	(5.6)	68.8	894.1
Profit for the year	–	–	–	44.7	44.7
Other comprehensive income for the year	–	–	–	–	–
Purchase of shares held in the EBT	–	–	(1.8)	–	(1.8)
Share based payment	–	–	–	0.4	0.4
Utilisation of EBT shares for Directors' Share Bonus Award	–	–	5.2	(5.2)	–
Dividend paid	–	–	–	(14.8)	(14.8)
As at 1 January 2017	**4.0**	**826.9**	**(2.2)**	**93.9**	**922.6**
Profit for the year	**–**	**–**	**–**	**42.2**	**42.2**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Share based payment	**–**	**–**	**–**	**1.1**	**1.1**
Utilisation of EBT shares for 2014 LTIP Award	**–**	**–**	**1.3**	**–**	**1.3**
Dividend paid	**–**	**–**	**–**	**(15.2)**	**(15.2)**
As at 31 December 2017	**4.0**	**826.9**	**(0.9)**	**122.0**	**952.0**

Company statements of cash flows

For the year ended 31 December 2017

(£ million)	2017	2016
Cash flows from operating activities		
Profit/(loss) before taxation (excluding dividend received)	**0.3**	(0.1)
Adjustments for:		
Interest income	**(2.1)**	(1.3)
Finance costs	**0.1**	–
	(1.7)	(1.4)
Movements in working capital:		
Increase in trade and other receivables	**(39.9)**	(36.3)
Increase in trade and other payables	**–**	0.5
Income tax received	**–**	0.3
Net cash used in operating activities	**(41.6)**	(36.9)
Cash flows from investing activities		
Interest received	**2.1**	1.3
Finance costs	**(0.1)**	–
Dividend received	**42.8**	43.6
Net cash generated from investing activities	**44.8**	44.9
Cash flows from financing activities		
Purchase of shares held in the EBT	**–**	(1.8)
Dividend paid to equity holders of the Parent	**(15.2)**	(14.8)
Net cash used in financing activities	**(15.2)**	(16.6)
Net decrease in cash and cash equivalents	**(12.0)**	(8.6)
Cash and cash equivalents at beginning of year	**12.1**	20.7
Cash and cash equivalents at end of year	**0.1**	12.1

Notes to the Parent Company financial statements

This section contains the notes to the Company financial statements. The issued share capital and EBT share reserves are consistent with the Spire Healthcare Group plc Group financial statements. Refer to note 19 of the Group financial statements.

C1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and on an historical cost basis. The financial statements are presented in UK sterling and all values are rounded to the nearest million pounds (£ million), except when otherwise indicated.

See note 1 for general information about the Company.

The financial statements have been prepared on a going concern basis as the Directors believe there are no material uncertainties that lead to significant doubt that the Company can continue as a going concern for at least 12 months from the date of approval of these financial statements.

The Company applies consistent accounting policies, as applied by the Group. To the extent that an accounting policy is relevant to both Group and Company financial statements, refer to the Group financial statements for disclosure of the accounting policy. Material policies that apply to the Company only are included as appropriate.

The Company has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the income statement of the Parent Company.

The Company did not have items to be reported as other comprehensive income; therefore, no statement of comprehensive income was prepared.

C2. Significant accounting policies in this section

Investment in subsidiaries

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment, the carrying value of the investment is compared to its recoverable amount, being its value-in-use.

Share based payments

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings is recognised by the Company in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to the IFRS 2 cost in subsidiary undertakings. The subsidiary, in turn, will recognise the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the Company.

C3. Key estimates and assumptions in this section

Impairment testing of investments in subsidiaries

The Company's investments in subsidiaries have been tested for impairment by comparison against the underlying value of the subsidiaries' assets based on value-in-use calculated using the same assumptions as noted for the testing of goodwill impairment in note 14 of the Group financial statements.

C4. Staff costs and Directors' remuneration

The Company had no employees during the year, except for the Directors. The information on compensation for the Directors, being considered as the key management personnel of the Company, is disclosed in note C12.

C5. Auditor's remuneration

During the year, the Company obtained the following services from the Company's external auditor, as detailed below:

(£ 000)	2017	2016
Amounts receivable by auditor and its associates in respect of:		
Audit of the Company's annual financial statements	**10.0**	10.0
	10.0	10.0

C6. Cash and cash equivalents

(£ million)	2017	2016
Cash at bank	**0.1**	0.2
Short-term investments	**–**	11.9
	0.1	12.1

C7. Other receivables

(£ million)	2017	2016
Amounts owed by subsidiary undertakings	**122.0**	80.8
	122.0	80.8

The amounts owed by subsidiary undertakings bear interest at LIBOR plus 2.00% (2016: LIBOR plus 2.00%). The amounts are unsecured and repayable on demand.

C8. Trade and other payables

(£ million)	2017	2016
Amounts owed to subsidiary undertakings	**2.4**	2.3
Accruals	**0.1**	0.2
	2.5	2.5

The amounts owed to subsidiary undertakings bear interest at LIBOR plus 2.00% (2016: LIBOR plus 2.00%). The amounts are unsecured and repayable on demand.

C9. Investment in subsidiaries

(£ million)	Subsidiary undertakings	Total
Net book value		
At 1 January 2016	830.7	830.7
Additions – IFRS 2 costs	0.4	0.4
At 1 January 2017	**831.1**	**831.1**
Additions – IFRS 2 costs	**1.1**	**1.1**
At 31 December 2017	**832.2**	**832.2**

Details of the Company's subsidiaries at the balance sheet date are in note 15 to the Group financial statements.

At the year end, investments in subsidiaries were reviewed for indicators of impairment and no indicators for impairment were found.

C10. Capital management and financial instruments

The capital structure of the Company comprises issued capital, reserves and retained earnings as disclosed in the Parent Company statement of changes in equity totalling £952.0 million (2016: £922.6 million) as at 31 December 2017, and cash amounted to £0.1 million (2016: £12.1 million).

Credit risk

As at 31 December 2017, the Company had amounts owed by subsidiary undertakings of £122.0 million (2016: £80.8 million). The Company's maximum exposure to credit risk from these amounts is £122.0 million (2016: £80.8 million).

Liquidity risk

The Company finances its activities through its investments in subsidiary undertakings.

The Company anticipates that its funding sources will be sufficient to meet its anticipated future administrative expenses and dividend obligations as they become due over the next 12 months.

C10. Capital management and financial instruments continued

(£ million)	2017	2016
Financial assets: Carrying amount and fair value		
Loans and receivables		
Cash and cash equivalents	**0.1**	12.1
Amounts owed by subsidiary undertakings	**122.0**	80.8
	122.1	92.9

All of the above financial assets are current and not impaired.

(£ million)	2017	2016
Financial liabilities: Carrying amount and fair value		
Amortised cost		
Amounts owed to subsidiary undertakings	**2.4**	2.3
	2.4	2.3

The fair value of financial assets and liabilities approximates their carrying value.

All of the Company's financial liabilities have a maturity of less than one year.

Market risk

Interest rate risk and sensitivity analysis

As at 31 December 2017 the Company had short-term borrowings of £2.4 million (2016: £2.3 million) owed to subsidiary undertakings, which are repayable on demand and bear interest at LIBOR plus 2.00% (2016: LIBOR plus 2.00%). Interest on these borrowings in the year amounted to nil (2016: nil) and the Directors do not perceive that servicing this debt poses any significant risk to the Company given its size in relation to the Company's net assets.

IFRS 7 *Financial Instruments: Disclosures* required a market risk sensitivity analysis illustrating the fair values of the Company's financial instruments and the impact on the Company's income statement and shareholders' equity of reasonably possible changes in selected market risks. Excluding cash and cash equivalents, the Company has no financial assets or liabilities that expose it to market risk, other than the amounts owed by/to subsidiary undertakings of £122.0 million (2016: £80.8 million) and £2.4 million (2016: £2.3 million) respectively. The Directors do not believe that a change of 25 basis points in the LIBOR interest rates will have a material impact on the Company's income statement or shareholders' equity.

C11. Contingent liabilities

Lease arrangements with a consortium of investors

The Company has given a guarantee to a consortium of investors, comprising Malaysia's Employees Provident Fund ('EPF'), affiliated funds of Och-Ziff Capital Management Group and Moor Park Capital, in relation to the sale of 12 of the Spire Group's property-owning companies on 17 January 2013. With effect from 17 January 2013, the total third party annual commitments of the Group under these operating leases increased by £51.3 million per annum.

As a result of the sale, the Group has long-term institutional lease arrangements (up to December 2042, subject to renewal or extension), with the landlord for each of the 12 properties. The leases include key terms such as annual rental covenants and minimum levels of capital expenditure invested by the Group. The capital expenditure covenants measured on an average basis over each five-year period during the term of the leases, require the Group to incur, in total, £5.0 million of maintenance capital expenditure and £3.0 million of additional capital expenditure on the portfolio of 12 hospitals each year, such being subject to indexation in line with RPI. If the minimum rent cover ratio is not met, the Group is required to enter into an asset performance recovery plan in order to comply with the covenants, but no default would be deemed to have occurred. The Company is a party to this guarantee. As at 31 December 2017, the Group complied with the required covenants.

Lease agreements entered into by Classic Hospitals Limited

Under lease agreements entered into on 26 January 2010 by Classic Hospitals Limited, a subsidiary undertaking of the Company, the Company has undertaken to guarantee the payment of rentals over the lease term to August 2040, and to ensure that the other covenants in the lease are observed. The initial rentals payable under the leases in 2010 were £6.3 million per annum, which will be subject to an increase in future years. As part of these arrangements, the assets of the Company are subject to a fixed and floating charge in the event of a default. As at 31 December 2017, there was no breach in the required covenants.

C12. Related party transactions

The Company's subsidiaries are listed in note 15 to the Group financial statements. The following table provides the Company's balances that are outstanding with subsidiary companies at the balance sheet date:

(£ million)	2017	2016
Amounts owed from subsidiary undertakings	122.0	80.8
Amounts owed to subsidiary undertakings	(2.4)	(2.3)
	119.6	78.5

The amounts outstanding are unsecured and repayable on demand.

The following table provides the Company's transactions with subsidiary companies recorded in the profit for the year:

(£ million)	2017	2016
Amounts invoiced to subsidiaries	40.6	36.3
Amounts invoiced by subsidiaries	(0.1)	(0.4)
Dividend received from subsidiaries	42.8	43.6

Amounts invoiced to/by subsidiaries relate to general corporate purposes.

Directors' remuneration

The remuneration of the non-executive directors of the Company is set out below. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 78 to 95.

(£ million)	2017	2016
Short-term employee benefits*	0.7	0.5
Pension contributions	–	–
Share based payments*	–	–
Total	0.7	0.5

* Emoluments and share based payment charges for the Executive Directors are borne by a subsidiary company, Spire Healthcare Limited. Share based payment related charges for the Executive Chairman prior to Admission (i.e., Directors' Share Bonus Plan) are also borne by a subsidiary company, Spire Healthcare Limited.

Directors' interests in share based payment schemes

Refer to note 21 to the Group financial statements for further details of the main features of the schemes relating to share options held by the Chairman, Executive Directors and Senior Management Team.

Other transactions

During the year, the Company did not make any purchases in the ordinary course of business from an entity under common control.

C13. Events after the reporting period

2017 final dividend

For 2017, the Board has recommended a final dividend of 2.5 pence per share, amounting to approximately £10.0 million, to be paid on 26 June 2018 to shareholders on the register at the close of business on 1 June 2018.